

**NORTHWEST AIR POLLUTION AUTHORITY**  
**Skagit County, Washington**  
**July 1, 1993 Through June 30, 1995**

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**Schedule Of Findings**

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1. The Authority Should Improve Internal Controls Over Accounting Systems

During our audit we noted the following weaknesses in the authority's accounting systems:

- a. The authority does not maintain adequate segregation of duties between significant accounting functions. The individual responsible for preparing a majority of the billings also posts to the revenue journal and the accounts receivable ledger, and prepares and makes deposits. The authority has not implemented compensating controls such as performing reconciliations between amounts received, amounts deposited, and revenue recorded.
- b. Control of the Money Pension Purchase Plan & Trust (MPPP&T) is the sole responsibility of the bookkeeper. The bookkeeper prepares the payroll, calculates the employee deductions for the MPPP&T account, and prepares the transfer of the authority's contribution to the MPPP&T account. The bookkeeper then prepares and signs the check transferring all funds to the investment group. On a monthly basis, the bookkeeper performs a reconciliation of the checking account. During this process no one performs any oversight on the bookkeeper's activities.
- c. The authority does not maintain control accounts for billings, accounts receivable, and revenues.
- d. The authority used billing invoices which are not prenumbered.
- e. A record of cash was not maintained and reconciliations were not performed between the authority's records and the county treasurer's reports.

RCW 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction . . . .

Chapter 6, Paragraph 51, of the *Government Auditing Standards* define internal controls as:

... the plan of the organization and methods and procedures adopted by management to ensure that its goals and objectives are met; that resources are used consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The *Budgeting, Accounting and Reporting System (BARS)* manual, Part 3, Chapter 1, page 23, states in part:

#### SEPARATION OF DUTIES

Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions should be separated among individuals.

To reduce the risk of error, waste, or wrongful acts or to reduce the risk of them going undetected, no one individual should control all key aspects of a transaction or event. Rather, duties and responsibilities should be assigned systematically to a number of individuals to ensure that effective checks and balances exist. Key duties include authorizing, approving, and recording transactions; issuing and receiving assets; making payments; and reviewing or auditing transactions. Collusion, however, can reduce or destroy the effectiveness of this internal control.

Authority personnel were apparently unaware of the significance of these internal controls.

Inadequate systems of internal controls could present individuals with the opportunity to perpetrate and conceal fraudulent activity without detection, reduce accountability over cash, or would allow inadvertent errors or irregularities to occur and not be detected in a timely manner.

We recommend the authority improve its controls over all accounting systems by implementing the following internal controls:

- a. Implement segregation of duties between significant accounting functions, especially between billings and receipts.
- b. Require reconciliation of the MPPP&T by someone other than the bookkeeper on a regular basis.
- c. Maintain control accounts for billings, receivables, and revenues as well as preparing aging reports for receivables.
- d. Use only prenumbered invoices for billing.
- e. Maintain a record of cash, and perform regular reconciliations between the authority's records and the county treasurer's reports.

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**Schedule Of Federal Findings**

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1. The Authority Should Maintain Adequate Supporting Documentation For Grant Expenditures Claimed

During our review of the VOC/RACT Rule Development grant (CFDA 66.001) for fiscal years 1994 and 1995 and the Petroleum Refinery Hazardous Air Pollutant grant (CFDA 66.001) for fiscal year 1995 we noted the following exceptions:

- a. The authority did not maintain completed time sheets to support payroll expenditures charged to the grants noted above. This resulted in questioned costs of \$44,948 for the fiscal year 1994 and \$48,614 for the fiscal year 1995 for the VOC/RACT Rule Development grant and \$4,231 for the fiscal year 1995 Petroleum Refinery Hazardous Air Pollutants grant. (See accompanying Schedule of Questioned Costs.)
- b. The authority claimed indirect costs without an approved indirect cost allocation plan. This has resulted in questioned costs of \$2,400 for the fiscal year 1994 VOC/RACT Rule Development grant and \$500 and \$269, respectively, for the fiscal year 1995 VOC/RACT Rule Development and Petroleum Refinery Hazardous Air Pollutants grants. (See accompanying Schedule of Questioned Costs.)

U.S. Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 11, Subsection a. states in part:

- a. *General.* Compensation for personnel services includes all remuneration, paid currently or accrued for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this Circular, and that the total compensation for individual employees:

(1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;

(2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by federal Law, where applicable; and

(3) Is determined and supported as provided in subsection h.

Subsection h. states in part:

These standards regarding time distribution are in addition to the standards for payroll documentation.

(1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit . . .

(3) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personal activity reports or equivalent documentation which meets the standards in subsection 5, unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award . . .

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly for the total activity for which each employee is compensated . . .

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards . . .

OMB Circular A-87, Attachment A, Section B., Definitions, states in part:

. . . 10. "Cost allocation plan" means central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal.

Attachment E, Subsection D, states in part:

. . . 1. *Submissions of indirect cost rate proposals.*

(a) All departments or agencies of the governmental unit desiring to claim indirect costs under federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposals and related documentation must be retained for audit in accordance with the records retention requirements contained in the

Common Rule.

(b) A governmental unit for which a cognizant agency assignment has been specifically designated must submit its indirect cost rate proposal to its cognizant agency . . . .

Authority personnel were apparently unaware of the above grant requirement and did not have policies, procedures or accounting systems in place to ensure compliance with grant requirements.

By not complying with the grant requirements, the authority could be required to pay back part or all of the revenues received under the grant programs.

We recommend

- a. The authority maintain properly supported payroll time sheets for all salary costs charged to federal programs.
- b. The authority only charge indirect costs to grant programs if they have an approved indirect cost allocation plan.